

The Governor's Blue Ribbon Teacher Pay Plan

Gov. Dennis Daugaard is proposing the following plan to bring about competitive teacher pay, a transparent and fair funding formula, and a more efficient education system. The plan is funded with a half-cent increase in the state sales tax, and funds \$40 million in property tax relief for all property taxpayers.

New funding formula

The plan creates a new school funding formula. The new formula sets a target statewide average salary of \$48,500. The new formula works as follows:

- For each district, calculate a target student-to-teacher ratio, based on a sliding scale by student enrollment (see below)
- The district's target number of teachers is calculated by dividing the district's fall enrollment by the target student-to-teacher ratio.
- The district's total instructional need is calculated by multiplying the district's target number of teachers by the statewide target for average teacher salary, and by increasing that total by 29% for benefits.
- The total instructional need is increased by 31% to cover non-instructional costs. This category includes operating costs as well as salaries and benefits of non-instructional staff, such as administrators, guidance counselors, librarians, and school nurses.
- These steps calculate the district's total need for state aid. At this point, local aid is applied against total need, with the state providing any necessary funds to achieve the total need.

The plan proposes the following sliding scale for the target ratio, based on enrollments:

- Less than 200 12.5 students to 1 teacher
- Between 200 and 600 Sliding scale from 12.5 to 1 to 15.0 to 1
- Greater than 600 15.0 to 1

This sliding scale retains the same enrollment thresholds as the current small school factor, as well as the 20% value of the small school factor.

The formula will not require school districts to strictly meet their target ratio; districts retain local control on how to use the dollars once they are appropriated. However, the formula creates an expectation that schools use new funds for salaries, and that schools make significant progress toward the target salary.

Today, the statewide student-to-teacher ratio is approximately 14:1. If every district achieved its target ratio under this plan, this sliding scale results in a statewide ratio of 14.46:1, using FY15 enrollments. This ratio does not determine class size because it considers other instructional staff, such as special education teachers.

Notably, the "benefits factor" includes sufficient funds to cover all district benefit costs, regardless of current funding source. This means that revenues currently collected by the pension levy can be considered to cover this total benefits need.

New funding for teacher salaries

The formula requires \$81.6 million in additional state funds. Because the new formula rolls pension fund expenses into the formula, the \$19.2 million collected by the pension levy counts against that total need. Therefore, the need of new state funds to fully fund the new formula is \$62.4 million. In addition, state-level programs described below have a cost of \$5 million, bringing the total need to \$67.4 million.

The proposal meets the entire \$67.4 million need with new state funds, raised by an increase in the state sales tax. The plan increases the state sales tax by one half-cent, from 4% to 4.5%. This increase is projected to generate \$107.4 million in FY17 and is used to cover the state's cost of \$67.4 million.

No existing school funds are repurposed to meet this \$67.4 million need.

Property tax relief

The half-cent sales tax increase generates \$40 million more than is needed to meet the \$67.4 million need. This remaining \$40 million is dedicated to property tax relief, applied to all classes of property at the same ratio as the general education levies.

Reserve fund caps

The proposal reinstates reserve fund caps, on a tiered system based on enrollment, as recommended by the Blue Ribbon Task Force.

At the time that reserve fund caps were repealed, districts were capped at 40%. That was calculated by dividing the district's June 30 fund balance by general fund expenditures. If that system were reinstated today, 68 districts would be over that limit.

Beginning this fiscal year, DOE now collects monthly, rather than annual, fund balances from districts.

The proposal reinstates caps as follows:

- The "percentage fund balance" will be calculated by dividing the lowest monthly cash fund balance of the previous 12 months by general fund expenditures. The purpose of this mechanism is to ascertain the fund level that, over the course of a year, is never used.
- Districts caps are determined by the same three enrollment tiers as the funding formula:
 - Less than 200 40%
 - Between 200 and 600 30%
 - Greater than 600 25%
- For the purpose of selecting a tier, districts use the lowest of the previous three year's enrollments. This prevents a district that is close to the line from fluctuating too frequently between tiers.
- The caps take effect for FY19, or the 2018-19 school year. There are no intermediate tiers to transition districts – it is the districts' responsibility to manage toward the caps.
- Once in effect, a district that is in excess of the cap would have its state aid reduced dollar-for-dollar. The Governor will appoint a five-member oversight board to consider requests to waive the caps in special circumstances.

Abolition of the pension levy

Today, school districts may assess up to 0.3 mills for a pension levy. There is no reason to assess a separate levy for this narrow purpose. The plan merges this levy into the general education levy.

General education levies will be increased to raise the same \$19.2 million that the pension levy currently raises. Because each class of property currently pays the same pension mill levy rate, the shift to the general education levy will also be even across the classes. Statewide, this is revenue-neutral to taxpayers.

Merging the pension levy with the general education levy also allows the \$19.2 million collected to be counted toward total need in the funding formula. The new formula also includes a benefits rate for schools that will cover these pension-related benefits costs.

Currently, districts also maintain a separate pension fund. The plan allows districts to maintain this separate fund for five years, and requires that it be merged into the district general fund in FY21. This gives the districts time to spend down these funds without initially counting against reserve fund caps.

Capital Outlay

The plan makes four changes to the current capital outlay (CO) levy:

- Repeal the sunset of CO flexibility and make it permanent. Broaden CO flexibility so that CO collections can be used for any general fund purpose at the current level of 45% of CO revenue.
- Require that districts make annual CO requests in the form of a dollar amount, not a mill levy rate.
- Limit future growth in CO collections by capping the maximum dollar amount that can be collected to increasing annually by 3% or inflation, whichever is less, plus new construction.
 - Note that this differs from the growth cap on other levies, which are applied to the amount collected, rather than the maximum that can be collected.
 - The effect of this cap in future growth will be to continue to allow districts to manage their levies up or down, while gradually lowering the maximum from 3.0 mills over time as valuations increase. This growth cap does not, in any case, require a district to collect less than it does now.
- Impose an alternative maximum on CO collections, on a per-student basis, at \$2800 per student, which is double the approximate state average of \$1400 per student. In future years this would inflate at the same rate as the formula – CPI or 3%, whichever is less. This alternative maximum would take effect in FY21, and special provision will be made for districts with capital outlay certificate obligations.
- The state will not mandate that any current capital outlay funds be shifted to general ed purposes. The capital outlay proposal has no effect on the general ed levies.

Equalization of other revenues

The plan seeks to bring equity to other revenues over time while giving schools a glide-path to that solution over five years. Other revenues are funding sources that school districts receive that are counted outside of the formula, and therefore not equalized across all districts.

The plan equalizes six sources of other revenue that have the character of a state tax. These sources are: gross receipts tax on utilities, local revenue in lieu of taxes, county apportionment of revenue from traffic fines, county revenue in lieu of taxes, wind farm tax, and bank franchise tax.

Initially, each school district will be given a base that will hold its other revenues harmless in the first year, based on its current collections. This base will be stepped down over five years, at 20% per year.

Each year, any other revenue collected beyond the “hold harmless base” will be counted as local effort and therefore equalized across districts through the funding formula. At the end of the five-year phase-in, the “hold harmless base” is eliminated and all revenue from these six sources will be counted as local effort and equalized through the funding formula. At that point, these revenue sources will be treated in the same way as local property taxes.

This plan does not offset state or local funding and will not take any funds away from the state’s education system. The Cutler/Gabriel ratio, which determines the share of education expenses paid by the state and by local taxes, will be adjusted so that the state’s contribution is not reduced and local property taxes are not impacted.

Accountability

Although this proposal is not a mandate, the funding formula will create an expectation. The state will expect significant movement towards the target statewide average salary and any school districts that lag behind the target salary must account for the difference.

To that end, the bill will require specific reporting measures so legislators will have the information to hold school districts accountable. Also, local residents of the school districts will be armed with a more transparent funding process to facilitate a more robust discussion on the impact of decisions in their school district.

Other proposals

The plan provides for the Blue Ribbon Task Force’s recommendations on voluntary shared services, e-learning, and teacher recruitment and retention:

- The e-learning proposal expands the capacity of the NSU e-learning center at an ongoing cost of \$1 million, and creates a “classroom innovation grant fund” to incentivize teacher training and classroom access to virtual education and customized learning tools, at an ongoing cost of \$1 million. These efforts build upon a recent Bush Foundation \$4 million grant received by TIE to develop online learning platforms.
- A mentoring program is created for first and second-year teachers, at a cost of \$1 million ongoing.
- The plan reinstates the bonus for achieving National Board Certification, and payment to those teachers who achieved this in the five years since it was suspended, at a one-time cost of \$150,000 and ongoing cost of \$50,000.
- Expansion of voluntary shared services. The state has already done this successfully in areas such as internet bandwidth and a student information system. The state pays for these services centrally and the school districts receive them for free. The amount that school districts save from not having to procure these services separately exceeds the amount of money the state pays to provide them. The proposal will expand this approach to more areas – such as purchasing, payroll, and software licensing. There will also be incentives for school districts to share staff.

The plan proposes that \$5 million in ongoing funds be allocated for these proposals. Combined with the new formula need of \$62.4 million, this brings the total need to \$67.4 million in new funds.